

Message Text

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PAGE 01 OECD P 32007 142117Z

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ACTION EUR-25

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SUBJ: INVISIBLES COMMITTEE EXAMINATION OF FRANCE

REF: (A) OECD 31973

B) OECD 29249

(C) DAF/INV/73.69

(D) DAF/INV/73.70

1. SUMMARY. INVISIBLES COMMITTEE (IC) COMPLETED THIRD EXAMINATION OF FRENCH RESERVATIONS TO CAPITAL MOVEMENTS CODE (CMC), AND HELD FURTHER PRELIMINARY EXAMINATION OF FRENCH DEROGATIONS TO CMC, ALL OF WHICH ARE TO BE TERMINATED AND REPLACED BY LIST B RESERVATIONS. LATTER DOCUMENT (REF D) WILL RETURN TO IC FOR FINAL CONSIDERATION AFTER FRANCE PROVIDES REASONS FOR REQUESTING EACH LIST B RESERVATION. END SUMMARY.

2. THIRD EXAMINATION OF FRENCH RESERVATIONS (REF C). IC COMPLETED EXAMINATION OF FRENCH RESERVATIONS AFTER HEARING CLARIFICATION OF FRENCH POSITION ON RESERVATIONS 2, 3, AND 4. (SEE REF B, PARAS 16 TO 20). FRENCH POSITION ON RESERVATION 2 (PARA 17, REF B), CONCERNING INTRODUCTION OF FOREIGN SECURITIES ON DOMESTIC

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PAGE 02 OECD P 32007 142117Z

SECURITY MARKETS, REMAINED UNCHANGED. FRENCH ALTERNATE (SCHWART)

ADMITTED THAT MINFIN OCCASSIONALLY REFUSED APPLICATIONS WHICH BOURSE WILLING TO ACCEPT. IN HIS VIEW THIS DID NOT INVOLVE DISCRIMINATION AGAINST FOREIGN SECURITIES BUT ONLY DIFFERENT TREATMENT. INVESTOR PROTECTION WAS STILL MAIN JUSTIFICATION FOR MINFIN EXAMINATION. IC CONSIDERED FRENCH DISTINCTION FUZZY AND AGAIN SUGGESTED THAT OTHER REASONS (E.G., MONETARY OR BALANCE OF PAYMENTS POLICIES) WERE THE REAL REASONS FOR SEPARATE MINFIN TREATMENT OF FOREIGN SECURITIES. FRENCH DENIED THIS, INSISTING THAT DIFFERENCES WERE SIMPLY PROCEDURAL, POSSIBLY LEADING AT TIMES TO NON-IDENTICAL RESULTS. FRENCH BELIEVED GENERAL TREND OF THEIR CONTROLS WAS TOWARD GREATER LIBERALIZATION. IC CONCLUDED THERE WAS NEED FOR HARMONIZING OF PROCEDURES SO THAT IMPACT ON FOREIGN AND DOMESTIC SECURITIES WOULD BE IDENTICAL, THUS REMOVING NEED FOR RESERVATION. IC ALSO SUGGESTED THAT BONDS BE EXCLUDED FROM RESERVATION, SINCE NO APPLICATIONS BEING MADE. FRENCH AGREED TO SUGGEST THIS TO AUTHORITIES.

3. FRENCH AGREED TO LIMIT SCOPE OF RESERVATION 3 (PARA 18, REF B) CONCERNING PLACEMENT OF BONDS OR SHARES ON DOMESTIC CAPITAL MARKET. HENCEFORTH, ISSUES BY OFFICIAL GOVERNMENT BODIES OR INTERNATIONAL ORGANIZATIONS WILL BE EXCLUDED FROM RESERVATION. FRENCH WILL RETAIN LIMITED RESERVATION ON ISSUES BY NON-OFFICIAL BODIES IN ORDER TO PROTECT DOMESTIC INVESTORS.

4. FRENCH UNWILLING MODIFY SCOPE OF RESERVATION 4 (PARA 19, REF B) CONCERNING SALE OF SECURITIES OF FOREIGN INSTITUTIONS FOR COLLECTIVE INVESTMENT (ICI'S) IN FRANCE. EVEN IF SUCH SECURITIES COMPLIED WITH OECD STANDARD RULES FOR PROTECTION OF INVESTORS. FRANCE DOES NOT ADHERE TO STANDARD RULES BECAUSE THEY LESS RIGOROUS THAN EXISTING FRENCH REQUIREMENTS. ALSO, FRENCH ICI'S SUBJECT TO SPECIAL REQUIREMENTS NOT GENERALLY MET BY FOREIGN ICI'S. BASIC DIFFERENCE IS THAT 30 PERCENT OF ASSET PORTFOLIO OF FRENCH ICI MUST BE HELD IN FRENCH BONDS. HOWEVER, EVEN IF THIS IS MET, THERE WOULD STILL BE RESTRICTIONS ON SALE OF FOREIGN ICI SECURITIES IN FRANCE TO PROTECT FRENCH INVESTORS. HOWEVER, FRENCH INVESTORS MAY PURCHASE SUCH FUNDS ABROAD. (COMMENT: MISSION CONSIDERS FRENCH PERFORMANCE DURING THIS EXAMINATION, FIRST IN SIX YEARS, TO HAVE BEEN GENERALLY UNRESPONSIVE TO IC QUESTIONING. FRENCH EXPERT, WHO IS ALSO NEW CHAIRMAN OF IC, WAS NOT PRESENT TO HELP CLARIFY FRENCH POSITION, AND RESPONSES OF HIS IC ALTERNATE LIMITED OFFICIAL USE

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PAGE 03 OECD P 32007 142117Z

WERE GENERALLY EVASIVE OR IRRELEVANT.)

5. TERMINATION OF ARTICLE 7(B) DEROGATION BY FRANCE AND REQUEST FOR LIST B RESERVATIONS (REF D). FRANCE WILL TERMINATE REMAINING FOUR DEROGATIONS UNDER ARTICLE 7(B) AND WILL REPLACE THEM WITH EQUIVALANET LIST B RESERVATIONS. U.S. EXPERT QUERIED NEED FOR RESERVATION COVERING LOANS TO FOREIGNERS (LIST B, IX/B) AT TIME OF HEALTHY BALANCE OF PAYMENTS AND FRENCH DESIRE TO EXPAND INTERNATION-

AL ROLE OF FRENCH CAPITAL MARKET. FRENCH EXPLAINED NEED TO CONTROL BUILD-UP OF LONG-TERM FOREIGN POSITIONS BY FRENCH RESIDENTS IN CASE OF SUBSEQUENT TURN-AROUND IN BALANCE OF PAYMENTS. U.S. EXPERT ASKED THAT REFDOC BE EXPANDED TO INCLUDE FRENCH REASONS FOR REQUESTING EACH LIST RESERVATION, AS REQUIRED BY CMC. FINAL VERSION OF DOCUMENT WILL BE DISCUSSED AT NEXT IC MEETING.
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